
LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2013

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date SEP 10 2014

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Risk Management Agency
Accident and Health Fund
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund) which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performed procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2014, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Posdeltwate & Nefferville

Baton Rouge, Louisiana
June 16, 2014

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Accident and Health Fund (the Fund) presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2013 and 2012. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Effective January 1, 2013, the Fund converted from a self-funded program to a fully insured sponsored plan through Blue Cross of Louisiana. The financial statements for the year ended December 31, 2013 include operations for dental coverage as well as run out of claims from the insured of periods prior to January 1, 2013.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2013 by \$1,901,051 compared to the Funds assets exceeding its liabilities by \$1,624,338 as of December 31, 2012.
- At December 31, 2013, the Fund's assets totaled \$1,938,615, which consisted primarily of cash, as compared to a balance of \$4,204,476 at December 31, 2012, which consisted primarily of cash and receivables.
- The Fund reported gross premiums earned of \$493,243 and \$16,484,577 during the years ended December 31, 2013 and 2012, respectively. Decrease from prior year as a result of dental coverage only being offered during 2013.
- The Fund reported an increase in net position of \$276,713 during the year ended December 31, 2013 compared to an increase in net position of \$697,338 during the year ended December 31, 2012.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by the private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine profitability, credit worthiness, and whether the Fund has successfully recovered all its costs through its premium and investment income. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statements of Revenues, Expenses and Changes in Net Position as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in it. Net position (difference between assets, deferred outflows, deferred inflows and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Position

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Total assets	\$ 1,938,615	\$ 4,204,476
Deferred outflows	-	-
Total liabilities	37,564	2,580,138
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 1,901,051</u>	<u>\$ 1,624,338</u>

The Fund's total liabilities consist primarily of estimated claims payable, which decreased from December 31, 2012 primarily as a result of the change from a self-funded program to an LMA sponsored program fully-insured through Blue Cross Blue Shield of Louisiana for health insurance, with the remaining coverage for the year ended December 31, 2013 primarily related to dental claims.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

**Condensed Statements of Revenues and Expenses and Changes in Net Position
for the Years Ended December 31:**

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 493,243	\$ 16,484,577
Operating expenses	<u>217,446</u>	<u>15,788,901</u>
Operating income	275,797	695,676
Non-operating income	<u>916</u>	<u>1,662</u>
Change in net position	<u>\$ 276,713</u>	<u>\$ 697,338</u>

The Fund experienced an excess of revenues over expenses in the amount of \$276,713 for the current year resulting primarily from less than anticipated claims run out expense (see Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report). During the year ended December 31, 2013, the Fund reported premium income of \$493,243 and investment income of \$916. The Fund reported total expenses of \$217,446, which consisted primarily of claims expense and administration expenses. Claims expense incurred during the years ended December 31, 2013 and 2012 represented 10% and 84% of premium income, respectively.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Accident and Health Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents (note 4)	\$ 1,875,190	\$ 3,564,147
Accounts receivable, net	63,425	363,516
Reinsurance receivable	<u>-</u>	<u>276,813</u>
Total assets	1,938,615	4,204,476
Deferred outflows	<u>-</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 1,938,615</u>	<u>\$ 4,204,476</u>
Liabilities:		
Unpaid claims liability (note 3)	\$ 36,300	\$ 1,615,000
Accounts payable and other liabilities	-	659,988
Due to affiliates (note 2)	<u>1,264</u>	<u>305,150</u>
Total liabilities	37,564	2,580,138
Deferred inflows	-	-
Net position	<u>1,901,051</u>	<u>1,624,338</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,938,615</u>	<u>\$ 4,204,476</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 493,243	\$ 16,484,577
Total operating revenues	<u>493,243</u>	<u>16,484,577</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 4)	184,166	13,822,258
Reinsurance premiums and commission (note 2)	-	1,135,331
Service agent fees (note 2)	15,475	789,479
Administrative fees - related party (note 2)	-	14,495
Miscellaneous	<u>17,805</u>	<u>27,338</u>
Total operating expenses	<u>217,446</u>	<u>15,788,901</u>
<u>OPERATING INCOME</u>	275,797	695,676
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	<u>916</u>	<u>1,662</u>
<u>CHANGE IN NET POSITION</u>	276,713	697,338
NET POSITION - BEGINNING OF YEAR	<u>1,624,338</u>	<u>927,000</u>
NET POSITION - END OF YEAR	<u>\$ 1,901,051</u>	<u>\$ 1,624,338</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Operating income	\$ 275,797	\$ 695,676
Adjustments to reconcile operating income to net cash (used in) provided by operations:		
Change in reinsurance receivable	276,813	(126,646)
Change in receivables	300,091	205,263
Change in unpaid claims liability	(1,578,700)	57,000
Change in accounts payable and other liabilities	(659,988)	74,201
Net cash (used in) provided by operating activities	<u>(1,385,987)</u>	<u>905,494</u>
Cash flows from investing activities:		
Investment interest received	<u>916</u>	<u>1,662</u>
Net cash provided by investing activities	<u>916</u>	<u>1,662</u>
Cash flows from financing activities:		
Change in due to affiliates	<u>(303,886)</u>	<u>13,850</u>
Net cash (used in) provided by financing activities	<u>(303,886)</u>	<u>13,850</u>
Net change in cash	(1,688,957)	921,006
Cash, beginning of year	<u>3,564,147</u>	<u>2,643,141</u>
Cash, end of year	<u>\$ 1,875,190</u>	<u>\$ 3,564,147</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of accident and health, workers' compensation, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The Accident and Health Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the LMRFA is vested in the Executive Board of LMA. Effective January 1, 2003, LMRFA began providing reinsurance for the Fund.

Effective January 1, 2013, the Fund converted from a self-funded program plan to an LMA sponsored program fully insured through Blue Cross Blue Shield of Louisiana. The Fund has no underwriting risk and LMRFA no longer provides reinsurance subsequent to this date. The Fund entered into an administrative services agreement for run-out claims with Blue Cross of Louisiana for the period January 1, 2013 through December 31, 2013. There will no longer be administrative fees paid to LMA. The Fund will continue to offer dental coverage as it has previously done and pay service agent fees to RMI for dental claims (see note 2).

As of December 31, 2013 and 2012, there were 41 and 49 participating municipalities in the Fund with a total number of participants of 1,053 and 2,003, respectively.

The various LMRMA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net positions are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) *Basis of Accounting*

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Statement 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements. Since the business of the Fund is essentially that of an insurance company, having a business cycle greater than one year, the statements of net position are not presented in a classified format.

(c) *Net Position*

During the year ended December 31, 2012, the Fund implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

(d) *Premium Income and Accounts Receivable*

Premiums are recognized as income over the term of the policies as they become earned on a pro rata basis. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known.

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(e) *Operating / Non-Operating Revenue and Expense*

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses, which are ancillary to the Fund's statutory purpose, are classified as non-operating.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) *Unpaid Claims Liability*

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. During 2012, estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Adjustments to claims liabilities are charged or credited to expenses in the period in which they are made. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claims amounts in the financial statements.

(g) *Cash and Cash Equivalents*

For the purposes of the statements of cash flows, cash includes amounts in demand deposit accounts with banks, and money markets and repurchase agreements, which are usually purchased with maturities of 90 days or less or are reinvested continuously.

(h) *Excess Reinsurance*

The Fund used excess reinsurance to reduce its exposure to large losses on insured events. Further description of the reinsurance coverage is described in Note 6. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Claims expense consists of claims incurred during the current year, adjustments to the accounting estimate of prior years' claims expense and a reduction for claims covered by the reinsurer in accordance with the reinsurance policy. Reinsurance receivable represents claims paid in excess of excess retention. The Fund considers reinsurance receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established.

(i) *Income Taxes*

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) *Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

2. RELATED PARTY TRANSACTIONS

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees incurred by the Fund for these services and related balances owed are as follows:

	<u>2013</u>	<u>2012</u>
Expenses and current fee structure:		
Administrative fees – LMA (\$.60 per person per month in 2012)	\$ -	\$ 14,495
Service agent fees – RMI (\$0 in 2013 and \$32.00 2012 for health and \$1.20 for dental participant in 2013 and 2012)	\$ 15,475	\$ 789,479
Reinsurance premium expense – LMRFA (\$0 in 2013 and \$40.58 in 2012 per person for health participants)	\$ -	\$ 980,250
Reinsurance commission – RMI (\$0 in 2013 and \$6.42 in 2012 per health participant)	\$ -	\$ 155,081
Due to affiliates:		
LMA	\$ -	\$ 2,280
RMI	<u>1,264</u>	<u>302,870</u>
	<u>\$ 1,264</u>	<u>\$ 305,150</u>

For the years ended December 31, 2013 and 2012, the Fund recorded and offset related claims expense \$0 and \$810,067, respectively received from the LMRFA as it relates to the reinsurance arrangements (see note 6). Of these amounts, \$0 and \$276,813 are receivable as of December 31, 2013 and 2012, respectively.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31:

	<u>2013</u>	<u>2012</u>
	(Amounts in thousands)	
Unpaid claims and claims adjustment expenses liability, beginning of year	\$ 1,615	\$ 1,558
Incurred claims and claims adjustment expense-provision for insured events	390	13,822
Over estimated claims in prior year	(207)	-
Less payments – claims and claims adjustment expenses	<u>(1,762)</u>	<u>(13,765)</u>
Unpaid claims and claims adjustment expenses liability, end of year	\$ <u>36</u>	\$ <u>1,615</u>

Settled claims have not exceeded aggregate insurance coverages in any of the past two fiscal years.

4. CASH AND CASH EQUIVALENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these funds shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the years ended December 31, 2013 and 2012. All demand deposits are insured or collateralized by pledged securities held by an agent in the name of the Fund.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions.

Net investment income for the years ended December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Interest income	\$ <u>916</u>	\$ <u>1,662</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

The Fund and its excess reinsurer represent a cooperative program for group funding and risk management of accident and health claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, the ultimate liability for claims remains with the members/participants, and the Fund has the authority to assess the members/participants to fund any deficits incurred.

From January 1, 2003 through December 31, 2012, the Fund has obtained reinsurance from LMRFA to provide the following coverage:

Item I: Annual aggregate in excess of 125% of annual earned normal premium.

Item II: \$900,000 specific losses in excess of \$100,000 each and every loss.

Amounts paid to LMRFA for reinsurance were obtained at a discounted rate compared to what management believes could be obtained in the commercial market. See Note 2 for details on amounts paid to and recovered from LMRFA for reinsurance arrangements. There have been no aggregate collections for either year. There was no reinsurance fee or coverage in 2013. See Note 1

6. ADMINISTRATIVE FEES

The total administrative fee paid to Blue Cross to administer the run-off of health claims (note 1) for the year ended December 31, 2013 was \$135,761.

7. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 16, 2014 and determined that no subsequent events occurring after this date have been evaluated for inclusion in these financial statements.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Officers and Trustees
Louisiana Municipal Risk Management Agency
Accident and Health Fund
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements Louisiana Municipal Risk Management Agency Accident and Health Fund (the Fund), which comprise the statement of net position as of and for the year ended December 31, 2013, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Podlethwaite & Nefferville

Baton Rouge, Louisiana
June 16, 2014

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2013

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2013

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Risk Management Agency
Public Liability Fund
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Public Liability Fund as of December 31, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 18, 2014, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 18, 2014

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Public Liability Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2013 and 2012. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2013 by \$7,565,597 compared to \$9,691,084 as of December 31, 2012, which is a 21.9% decrease.
- At December 31, 2013, the Fund's assets totaled \$24,221,261, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and accounts receivable. At December 31, 2012, the Fund's assets totaled \$25,503,677 and were comprised of similar types of assets.
- The Fund reported earned premiums of \$10,988,404 and \$11,272,040 during the years ended December 31, 2013 and 2012, respectively.
- Net position decreased by \$2,125,487 during the year ended December 31, 2013 compared to an increase of \$1,412,717 during 2012.
- At the end of the current fiscal year, the Fund's net position totaled \$7,565,597 or 58.9% of current year expenses.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). These statements also provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all of its costs through its premium and investment income, profitability and credit worthiness. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities.

The preparation of these financial statements requires the utilization of significant estimates. Changes in estimates, as well as the differences in actual results and estimated amounts, will be included in the Statements of Revenues, Expenses and Changes in Net Position as these circumstances become known.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the Net Position of the Fund and changes in them. The net position (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Position at December 31:

	<u>2013</u>	<u>2012</u>
Total assets	\$ 24,221,261	\$ 25,503,677
Deferred outflows	-	-
Total liabilities	16,655,664	15,812,593
Deferred inflows	-	-
Net position	<u>\$ 7,565,597</u>	<u>\$ 9,691,084</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets decreased approximately 5% primarily as a result of operating losses and increases in market interest rates in calendar year 2013, which had a negative impact on the Fund's fixed income portfolio. Total liabilities increased approximately 5.3% over prior year.

**Condensed Statements of Revenues and Expenses and Changes in Net Position
for the Years Ended December 31:**

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 10,988,404	\$ 11,272,040
Operating expenses	<u>12,852,637</u>	<u>10,307,970</u>
Operating income (loss)	(1,864,233)	964,070
Non-operating income (loss)	<u>(261,254)</u>	<u>448,647</u>
Change in net position	<u>\$ (2,125,487)</u>	<u>\$ 1,412,717</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

During the year ended December 31, 2013, the Fund reported premium income of \$10,988,404 and an investment loss of \$261,254. Premiums decreased slightly during 2013 due to a reduction in participating groups from the prior year. Investment losses were as a result of unrealized losses in the investment portfolio as discussed previously. The Fund reported total expenses of \$12,852,637, which consisted primarily of claims, reinsurance premiums, administrative and service agent fees. Claims expense increased in the current year primarily as a result of cases settling slightly unfavorably during the year ended December 31, 2013 compared to prior periods. Reinsurance premiums paid to an affiliate have increased \$2,609,337 during 2013 as a result of the Fund's historical loss experience on large claims. The Fund experienced a decrease in net position of \$2,125,487 for the current year. See Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency - Public Liability Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Investments (note 4)	\$ 20,909,266	\$ 22,738,104
Accounts receivable, net	1,303,826	1,375,587
Reinsurance receivable (note 3)	1,667,937	1,115,988
Deductibles receivable	230,107	163,329
Accrued interest receivable	110,125	110,669
	<u> </u>	<u> </u>
Total assets	<u>\$ 24,221,261</u>	<u>\$ 25,503,677</u>
Deferred outflows	-	-

LIABILITIES AND NET POSITION

Liabilities:		
Unpaid claims liability, net (note 3)	\$ 13,840,000	\$ 13,583,000
Unearned premiums	2,259,184	2,126,709
Due to affiliates - net (note 2)	538,296	83,594
Accrued expenses	18,184	19,290
	<u> </u>	<u> </u>
Total liabilities	16,655,664	15,812,593
Deferred inflows	-	-
Net Position	<u>7,565,597</u>	<u>9,691,084</u>
	<u> </u>	<u> </u>
Total liabilities, deferred inflows, and net position	<u>\$ 24,221,261</u>	<u>\$ 25,503,677</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 493,243	\$ 16,484,577
Total operating revenues	<u>493,243</u>	<u>16,484,577</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 4)	184,166	13,822,258
Reinsurance premiums and commission (note 2)	-	1,135,331
Service agent fees (note 2)	15,475	789,479
Administrative fees - related party (note 2)	-	14,495
Miscellaneous	<u>17,805</u>	<u>27,338</u>
Total operating expenses	<u>217,446</u>	<u>15,788,901</u>
<u>OPERATING INCOME</u>	275,797	695,676
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	<u>916</u>	<u>1,662</u>
<u>CHANGE IN NET POSITION</u>	276,713	697,338
NET POSITION - BEGINNING OF YEAR	<u>1,624,338</u>	<u>927,000</u>
NET POSITION - END OF YEAR	<u>\$ 1,901,051</u>	<u>\$ 1,624,338</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Operating (loss) gain	\$ (1,864,233)	\$ 964,070
Adjustments to reconcile operating gain (loss) to net cash provided by operations:		
Bad debt expense	50,658	165,172
Change in receivables	(597,080)	1,211,415
Change in unpaid claims liability	257,000	617,000
Change in accrued expenses, unearned premiums and due to affiliates	<u>586,071</u>	<u>14,175</u>
Net cash (used in) provided by operating activities	<u>(1,567,584)</u>	<u>2,971,832</u>
Cash flows from investing activities:		
Purchases of investments	(4,596,587)	(15,540,310)
Proceeds from sales and maturities of investments	5,583,910	12,044,431
Investment income received	<u>580,261</u>	<u>524,047</u>
Net cash provided by (used in) investing activities	<u>1,567,584</u>	<u>(2,971,832)</u>
Net change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The LMRMA Public Liability Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2013 and 2012, there were 222 and 223 participating municipalities, respectively.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

Risk Management, Inc. (RMI) is a third party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the LMRFA is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Public Liability Fund.

The various LMRMA and LMRFA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net positions are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

(b) *Basis of Accounting*

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net position are not presented in a classified format.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Net Position

During the year ended December 31, 2012, the Fund implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

(d) Investments

Investments are reported at estimated fair value except for short term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements, U.S. Government Agency obligations and U.S. Treasury securities and are held for long term purposes.

(e) Premium Income and Receivables

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known. Acquisition costs associated with new and renewal contracts are immaterial to the financial statements and are expensed when incurred.

The Fund considers accounts receivable, reinsurance receivable, and deductibles receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts or deductibles become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(f) Operating/Non-Operating Revenue and Expense

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Unpaid Claims Liability*

The Fund provides liability coverage to members for claims incurred during the benefit period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverages such as public liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements.

(h) *Statements of Cash Flows*

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Since certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments.

(i) *Excess Reinsurance*

The Fund uses excess reinsurance to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

(j) *Income Taxes*

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) *Use of Estimates*

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

2. RELATED PARTY TRANSACTIONS

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the earned normal premiums (ENP) for the years ended December 31, 2013 and 2012. The respective percentages of the respective earned normal premiums and earned standard premiums are as follows:

	<u>2013</u>	<u>2012</u>
Expenses (and current fee structure):		
Administrative fee – LMA** (7.00% of ENP)	\$ 16,212	\$ 658,527
Service agent – RMI (7.25% of ENP)	\$ 654,281	\$ 682,046
Reinsurance – LMRFA** (21.75% of ENP in 2012, 44.00% in 2013)	\$ 4,655,476	\$ 2,046,139
Reinsurance recoveries from LMRFA	\$ 5,038,589	\$ 2,407,330
Due (to) from affiliates:		
LMA	\$ 143,788	(\$ 814)
RMI	278,392	312,828
LMRFA	(960,476)	(390,903)
LMRMA Workers' Compensation Fund	-	(4,705)
	<u>(\$ 538,296)</u>	<u>(\$ 83,594)</u>

** For the year ended December 31, 2013, the board of directors approved one time transfers of \$625,000 in administrative fees from LMA to the LMRMA which is reflected as a reduction of administrative fees.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 31,430	\$ 26,357
Less: Reinsurance recoverables	<u>17,847</u>	<u>13,391</u>
Liability for unpaid losses at beginning of year, net	<u>13,583</u>	<u>12,966</u>
Net incurred related to:		
Current year	6,482	6,700
Prior years	<u>922</u>	<u>(3)</u>
Total incurred	<u>7,404</u>	<u>6,697</u>
Net paid related to:		
Current year	838	1,084
Prior years	<u>6,309</u>	<u>4,996</u>
Total paid	<u>7,147</u>	<u>6,080</u>
Liability for unpaid losses at end of year, gross	29,403	31,430
Less: Reinsurance recoverables	<u>15,563</u>	<u>17,847</u>
Liability for unpaid losses at end of year, net	<u>\$ 13,840</u>	<u>\$ 13,583</u>

In addition to the unpaid claims covered by the Fund's reinsurer (LMRFA), there are \$1,667,937 and \$1,115,988 of paid claims which are recoverable from the reinsurer at December 31, 2013 and 2012, respectively.

During 2013, the Fund experienced unfavorable development of prior year estimated loss reserves. During 2012, the Fund experienced slightly favorable development. The unfavorable developments related primarily to certain advantageous judicial proceedings as well as an overall increase in incurred claims. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2013 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2013 will not vary from the above estimates, and such difference could be significant.

The Fund's claims payable have been discounted for December 31, 2013 and 2012, based on the Fund's anticipated payout patterns and discount rate assumptions of 4.5%, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$1,003,000 and \$1,065,000 at December 31, 2013 and 2012, respectively.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in question. In regard to deposits and investments, the Fund was in compliance with these revised provisions as of and during the years ended December 31, 2013 and 2012.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements. The Fund policy is to wire transfer cash as needed from investments to support disbursements. Consequently, a zero cash balance is maintained.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Fund's exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2013 and 2012:

<u>Investment Type</u>	<u>2013</u>		<u>2012</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage-backed securities	\$ 9,973,269	\$ 9,836,444	\$ 5,806,260	\$ 5,666,371
U.S. Agency debt obligations	7,655,134	7,593,697	12,041,910	11,365,047
U.S. Treasury bonds and notes	535,502	565,687	586,325	564,925
Money market funds	<u>2,745,361</u>	<u>2,745,361</u>	<u>4,303,609</u>	<u>4,303,609</u>
TOTAL	<u>\$ 20,909,266</u>	<u>\$ 20,741,189</u>	<u>\$ 22,738,104</u>	<u>\$ 21,899,952</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2013 and 2012.

Standard and Poor's Rating	Estimated Fair Value 2013	Estimated Fair Value 2012
Money market funds – not rated	\$ 2,745,361	\$ 4,303,609
U.S. Government securities		
Not rated	6,358,407	6,392,585
Rated AA+	11,805,498	12,041,910
Total	<u>\$ 20,909,266</u>	<u>\$ 22,738,104</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2013:

<u>Investment Type</u>	<u>INVESTMENT MATURITIES (in years)</u>				
	<u>Estimated Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
Money market funds	\$ 2,745,361	\$2,745,361	\$ -	\$ -	\$ -
U.S. Treasury bonds and notes	535,502	-	-	535,502	-
U.S. Government mortgage-backed securities	9,973,269	100,885	2,984,708	1,917,810	4,969,866
U.S. Agency debt obligations	7,655,134	352,477	4,395,965	2,906,692	-
	<u>\$ 20,909,266</u>	<u>\$ 3,198,723</u>	<u>\$ 7,380,673</u>	<u>\$ 5,360,004</u>	<u>\$ 4,969,866</u>

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Net investment income (loss) for the years ended December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Interest income	\$ 490,938	\$ 470,686
Realized losses - net	(82,118)	(64,456)
Unrealized gains arising during the year - net	(670,074)	42,417
	<u>\$ (261,254)</u>	<u>\$ 448,647</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

During the years ended December 31, 2013 and 2012, LMRFA provided reinsurance to LMRMA Public Liability Fund with the following limits:

- Item I: \$5,000,000 annual aggregate in excess of 65% of earned normal premium
- Item II: Each and every loss in excess of \$100,000 in accident years prior to 2012 and \$150,000 for 2012 and 2013.

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants.

Prior to 1993, Louisiana law limited the liability of the municipalities to \$500,000 per occurrence. During 1993, the Louisiana Supreme Court revoked this limit. The above "specific reinsurance limits" for the Public Liability Fund covers claims up to \$500,000. As of November 1, 1995, the statutory liability increased to \$750,000 from \$500,000. The Fund's coverage remains unchanged.

The following are condensed Statements of Net Position for LMRFA at December 31:

	<u>2013</u>	<u>2012</u>
Assets	\$ 44,815,513	\$ 44,537,935
Liabilities	<u>43,948,311</u>	<u>43,437,960</u>
Net Position	<u>\$ 867,202</u>	<u>\$ 1,099,975</u>

At December 31, 2013, the Fund included \$15.5 million as recoverable from LMRFA which reduced liabilities for anticipated losses. The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable.

6. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 18, 2014 and determined that there were no events that required disclosure. No events occurring after this date have been considered for inclusion in these financial statements.

SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2013

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
CLAIMS EXPENSE AND RE-ESTIMATED CLAIM ADJUSTMENT EXPENSE
(Unaudited)**

DECEMBER 31, 2013

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense (net of loss assumed by reinsurers on specific losses) incurred by the Fund as of the end of 2013 and as of the end of each of the last nine years.

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	(in thousands)									
ENP and investment income	\$ 10,727	\$ 11,721	\$ 11,988	\$ 11,811	\$ 11,711	\$ 12,125	\$ 11,275	\$ 9,491	\$ 9,067	\$ 8,992
Operating costs unallocated	5,449	3,611	3,395	3,133	3,266	3,034	3,189	3,081	3,937	3,907
Estimated incurred claims and claims expense, end of policy year	7,374	8,778	6,826	6,287	6,097	5,307	4,959	4,833	4,902	6,876
Paid (cumulative) as of:										
End of policy year	838	1,084	931	920	787	954	928	478	789	930
One year later	-	2,705	2,644	2,379	2,229	3,532	2,323	1,253	1,941	2,241
Two years later	-	-	4,733	3,886	3,865	4,595	4,555	2,111	3,534	3,831
Three years later	-	-	-	4,897	4,737	6,158	5,837	3,039	4,361	4,735
Four years later	-	-	-	-	5,372	6,868	6,466	4,115	5,027	5,544
Five years later	-	-	-	-	-	7,158	6,619	4,537	5,666	5,834
Six years later	-	-	-	-	-	-	6,709	4,613	5,840	6,317
Seven years later	-	-	-	-	-	-	-	4,714	5,914	6,390
Eight years later	-	-	-	-	-	-	-	-	5,982	6,400
Nine years later	-	-	-	-	-	-	-	-	-	6,404
Re-estimated incurred claims and claims expense:										
End of policy year	7,374	8,778	6,826	6,287	6,097	5,307	4,959	4,833	4,902	6,876
One year later	-	8,476	7,083	6,460	6,103	8,682	5,706	4,272	5,300	6,144
Two years later	-	-	7,466	6,287	6,395	7,038	7,294	4,023	5,338	6,069
Three years later	-	-	-	6,180	6,103	7,038	6,781	4,369	5,570	5,954
Four years later	-	-	-	-	6,064	7,430	6,781	4,940	5,741	6,404
Five years later	-	-	-	-	-	7,553	7,228	4,957	5,749	6,360
Six years later	-	-	-	-	-	-	7,075	4,940	5,840	6,317
Seven years later	-	-	-	-	-	-	-	4,854	6,143	6,390
Eight years later	-	-	-	-	-	-	-	-	6,098	6,541
Nine years later	-	-	-	-	-	-	-	-	-	6,479
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(302)	640	(107)	(33)	2,246	2,116	21	1,196	(397)

See accompanying independent auditors' report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees
Louisiana Municipal Risk Management Agency
Public Liability Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency - Public Liability Fund (the Fund), which comprise the statement of financial position as of and for the year ended December 31, 2013, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 18, 2014

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Finding

The Fund's response to the finding identified in our audit is described in the accompany schedule of findings. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 18, 2014

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2013

- None

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

SCHEDULE OF PRIOR FINDINGS
YEAR ENDED DECEMBER 31, 2013

FINDINGS—Financial Statement Audit

2012-1 Internal Control Over Financial Reporting

<u>Criteria</u>	The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Fund, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP)
<u>Condition</u>	The Fund retains an actuarial specialist to assist in the calculation of the unpaid claims liability for each financial reporting period. The development of estimates for unpaid claims reserves relies on accurate and consistent data for claims payment patterns, case reserve setting practices, claims reporting, and other statistical data provided by management. Changes in the underlying data sources and claims handling practices over time must be communicated and considered in the actuarial trending and analysis in estimating future claims settlement.
<u>Cause</u>	During 2012 management determined that certain information used to prepare the actuarial valuation of the unpaid claims reserves was used erroneously and resulted in inaccuracies in the computation of the unpaid claims reserve valuations for the year ended December 31, 2011 and some prior years. Certain components of the information communicated to the actuarial specialist were inconsistent with the Fund's actual underlying claims data and some information was misunderstood in communications with the specialist.
<u>Effect</u>	These conditions resulted in the estimates for unpaid claims reserve liabilities being based on inaccurate information and the misstatement of the year end actuarial valuation of the unpaid claims reserve liabilities. These errors required the restatement of the Fund's 2011 financial statements. These conditions were considered to be a significant deficiency in the Fund's internal control over financial reporting.
<u>Recommendation</u>	The Fund's management and actuarial specialist have implemented additional procedures to ensure the accuracy and consistent understanding of the Fund's claims information being exchanged and improvements in the communication between these parties. We recommend that the Fund continue to monitor these additional procedures and make additional improvements as necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability.

View of Responsible Official and Planned Corrective Action

Management agrees with the finding and management has implemented procedures necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability. During 2012, management began providing automated data to the actuary and implemented a mid-year review by the actuary. Management will continue to implement these added procedures in future periods.

Current Status Resolved

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2013

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2013

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Risk Management Agency
Workers' Compensation Fund
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Louisiana Municipal Risk Management Agency-Workers' Compensation Fund (a quasi-public organization) (the Fund) which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2014, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Postlethwaite & Netter, LLC

Baton Rouge, Louisiana
June 18, 2014

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2013 and 2012. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2013 by \$29,983,551 compared to \$35,024,476 as of December 31, 2012, which is a 14.4% decrease over the previous year.
- At December 31, 2013, the Fund's assets totaled \$49,826,377, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables. At December 31, 2012, the Fund's assets totaled \$52,680,014 and were comprised of similar types of assets.
- The Fund reported gross earned premiums of \$9,492,376 and \$9,859,588 during the years ended December 31, 2013 and 2012, respectively, and a decrease in net position of \$5,040,925 and an increase in net position of \$714,829 during the years ended December 31, 2013 and 2012, respectively.
- At the end of the current fiscal year, the Fund's net position totaled \$29,983,551 or 1.5 times the Fund's liabilities. The Fund's premiums earned during 2013 were approximately 31.7% of its net position at December 31, 2013.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by the private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all of its costs through its premiums and investment income, profitability and credit worthiness. The final required basic financial statement is the Statement of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

The preparation of these basic financial statements requires the utilization of significant estimates. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Position as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in it. Net position (difference between assets, deferred outflows, deferred inflows, and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Position at December 31,:

	<u>2013</u>	<u>2012</u>
Total assets	\$ 49,826,377	\$ 52,680,014
Deferred outflows	-	-
Total liabilities	19,842,826	17,655,538
Deferred inflows	-	-
Net position	<u>\$ 29,983,551</u>	<u>\$ 35,024,476</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets decreased approximately 5.4% resulting from increase in market interest rates during 2013, which had a negative impact on the Fund's fixed income portfolio, an operating loss, as well as timing of payment of reinsurance receivable. Total liabilities increased approximately 12.4% mainly due to the increases in unpaid claims liabilities and due to affiliates. Net position decreased approximately 14.4% from the prior year.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

**Condensed Statements of Revenues and Expenses and Changes in Net Position
for the Years Ended December 31,:**

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 9,492,376	\$ 9,859,588
Operating expenses	<u>13,997,015</u>	<u>10,331,547</u>
Operating (loss)	(4,504,639)	(471,959)
Non-operating (loss) income	<u>(536,286)</u>	<u>1,186,788</u>
Change in net position	\$ <u>(5,040,925)</u>	\$ <u>714,829</u>

Premium revenues decreased \$367,212 or 4% due to fluctuations in rates from the prior year. Investment income decreased in the current year as a result of unfavorable changes in the estimated fair value of the investment portfolio. During the year ended December 31, 2012, the Fund reported premium income of \$9,859,588 and non-operating investment income of \$1,186,788. During 2013, the Fund reported total expenses of \$13,997,015, which consisted primarily of claims, administrative and service agent fees, and excess insurance premiums. Total expenses increased \$3,665,468 or 35% compared to the prior year due to increases in claims and excess insurance premiums as compared to 2012.

The Fund's decrease in net position during 2013 was \$5,040,925. This is a result of decreased gross revenue and higher claims expense, increased by investment losses. See Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report.

Financial Outlook

The Fund anticipates consistency in membership during the next fiscal year. Management emphasizes that the Fund's expenses are greatly impacted by claims losses and claims related expenses which are influenced by factors beyond management's control, including the rate of medical inflation, judicial rulings, and legislative changes.

Requests for Information

This financial report is designed to provide our members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency - Workers' Compensation Fund, P O Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Investments (note 4)	\$ 45,476,081	\$ 46,632,166
Accounts receivable, net	3,535,988	3,522,759
Reinsurance receivable (note 3)	513,076	2,219,150
Accrued interest receivable	<u>301,232</u>	<u>305,939</u>
Total assets	<u>\$ 49,826,377</u>	<u>\$ 52,680,014</u>
Deferred outflows	-	-

LIABILITIES AND NET POSITION

Liabilities		
Unpaid claims liability (note 3)	\$ 12,313,000	\$ 11,303,000
Unearned premiums	1,174,763	1,194,743
Due to affiliates (note 2)	3,304,479	2,210,229
Accounts payable and accrued expenses	<u>3,050,584</u>	<u>2,947,566</u>
Total liabilities	19,842,826	17,655,538
Deferred inflows	-	-
Net position	<u>29,983,551</u>	<u>35,024,476</u>
Total liabilities, deferred inflows, and net position	<u>\$ 49,826,377</u>	<u>\$ 52,680,014</u>

The accompanying notes are an integral part of these financial statements

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 9,492,376	\$ 9,859,588
Total operating revenues	<u>9,492,376</u>	<u>9,859,588</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	6,680,198	4,444,107
Administrative fees (note 2)	102,727	1,017,716
Service agent fees (note 2)	844,403	878,936
Reinsurance premiums (note 2)	5,585,877	2,775,589
Second Injury Fund assessment	609,232	420,831
Office of Workers' Compensation assessment	20,842	139,362
Bad debt expense	50,000	564,739
Other	<u>103,736</u>	<u>90,267</u>
Total operating expenses	<u>13,997,015</u>	<u>10,331,547</u>
<u>OPERATING LOSS</u>	(4,504,639)	(471,959)
<u>NON-OPERATING (LOSS) INCOME</u>		
Investment (loss) income, net (note 4)	<u>(536,286)</u>	<u>1,186,788</u>
<u>CHANGE IN NET POSITION</u>	<u>(5,040,925)</u>	<u>714,829</u>
<u>NET POSITION - BEGINNING OF YEAR</u>	<u>35,024,476</u>	<u>34,309,647</u>
<u>NET POSITION - END OF YEAR</u>	<u>\$ 29,983,551</u>	<u>\$ 35,024,476</u>

The accompanying notes are an integral part of these financial statements

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Operating loss	\$ (4,504,639)	\$ (471,959)
Adjustments to reconcile operating loss to net cash used in operations		
Bad debt expense	50,000	564,739
Change in receivables and reinsurance receivable	1,642,845	(2,275,176)
Change in unpaid claims liability	1,010,000	367,000
Change in accounts payable, accrued expenses, unearned premiums and due to affiliates	<u>1,181,995</u>	<u>1,430,948</u>
Net cash used in operating activities	<u>(619,799)</u>	<u>(384,448)</u>
Cash flows from investing activities		
Investment income received	1,552,661	1,595,657
Purchases of investments	(12,980,640)	(25,068,491)
Proceeds from sales and maturities of investments	<u>12,047,778</u>	<u>23,857,282</u>
Net cash provided by investing activities	<u>619,799</u>	<u>384,448</u>
Net change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33 1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The LMRMA-Workers' Compensation Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association, a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund, after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for LMRMA.

Risk Management, Inc (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33 1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of LMRFA is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Workers' Compensation Fund.

The various LMRMA and LMRFA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net position are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No 10 and GASB Statement No 14.

(b) Basis of Accounting

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net position are not presented in a classified format.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Net Position*

During the year ended December 31, 2012, the Fund implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the differences between total assets and total liabilities presented in the Statement of Net Position.

(d) *Investments*

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available, if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements and U.S. Government Agency and Treasury obligations.

(e) *Premium Income and Accounts Receivable*

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known. Acquisition costs associated with new and renewal contracts are immaterial to the financial statements and are expensed when incurred.

The Fund determines past-due accounts based on contractual terms and does not charge interest on the accounts. The Fund charges off receivables if management considers the collection of the outstanding balance to be doubtful. During the year ended December 31, 2013 and 2012, the allowance for doubtful accounts totaled \$50,000 and \$0, respectively.

(f) *Operating / Non-Operating Revenue and Expenses*

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

(g) *Unpaid Claims Liability*

The Fund provides workers' compensation coverage to members for claims incurred during the policy period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Unpaid Claims Liability (continued)

The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements.

(h) Statements of Cash Flows

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments.

(i) Excess Reinsurance

The Fund uses excess reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as the direct insurer of the insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

(j) Income Taxes

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(k) Insurance Related Assessments

The Fund is subject to assessments made by the Louisiana Second Injury Fund and the Office of Workers' Compensation based on benefits paid each year. The Fund recognizes these assessments as expense when related claim benefits are incurred rather than paid. Changes in accruals for insurance related assessments are adjusted in the year assessment rate changes and claims estimates are made.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) *Use of Estimates*

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

2. RELATED PARTY TRANSACTIONS

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees are based on earned normal premiums (ENP) for the years ended December 31, 2013 and 2012. The respective percentages of the respective earned normal premiums are as follows:

	<u>2013</u>	<u>2012</u>
Expenses (and current fee structure)		
Administrative fees - LMA ** (11.00% of ENP)	<u>\$ 102,727</u>	<u>\$ 1,017,716</u>
Service agent fees - RMI (9.50% of ENP)	<u>\$ 844,403</u>	<u>\$ 878,936</u>
Reinsurance - LMRFA ** (53.00% of ENP in 2013, 30.00% in 2012)	<u>\$ 5,585,877</u>	<u>\$ 2,775,589</u>
Reinsurance recoveries from LMRFA	<u>\$ 2,606,640</u>	<u>\$ 3,155,548</u>
Due to (from) affiliates		
LMA	\$ (357,273)	\$ 57,716
RMI	(70,013)	5,610
LMRFA	3,731,765	2,137,390
LMRMA Public Liability Fund	-	9,513
	<u>\$ 3,304,479</u>	<u>\$ 2,210,229</u>

** For the year ended December 31, 2013, the board of directors approved a one time transfer of \$875,000 in administrative fees from LMA to the LMRMA which is reflected as a reduction of administrative fees.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 36,607	\$ 33,336
Less reinsurance recoverables	<u>25,304</u>	<u>22,400</u>
Liability for unpaid losses at beginning of year, net	<u>11,303</u>	<u>10,936</u>
 Net incurred related to		
Current year	5,722	5,231
Prior years	<u>958</u>	<u>(787)</u>
Total incurred	<u>6,680</u>	<u>4,444</u>
 Net paid related to		
Current year	1,195	1,301
Prior years	<u>4,475</u>	<u>2,776</u>
Total paid	<u>5,670</u>	<u>4,077</u>
 Liability for unpaid losses at end of year, gross	40,675	36,607
Less reinsurance recoverable (note 5)	<u>28,362</u>	<u>25,304</u>
Liability for unpaid losses at end of year, net	<u>\$ 12,313</u>	<u>\$ 11,303</u>

In addition to the unpaid claims covered by the reinsurers, there are \$513,076 and \$2,219,150 of paid claims which are recoverable from the reinsurer at December 31, 2013 and 2012, respectively.

During 2013 the Fund experienced overall unfavorable development on unpaid claims liabilities established in prior years. During 2012, the Fund experienced favorable development on unpaid claims liabilities established in prior years. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2013 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2013 will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for December 31, 2013 and 2012, based on the Fund's anticipated payout patterns and a discount rate assumption of 4.5%, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$2,002,000 and \$2,099,000 at December 31, 2013 and 2012, respectively.

The Fund is also subject to assessments by the Louisiana Second Injury Fund and Office of Workers Compensation each year based on the amount of assessable benefits paid each year. The Fund includes in accrued expenses estimated liabilities to be paid for assessable benefits paid and estimated to be paid in future periods.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2013 and 2012.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements. The Fund's policy is to wire-transfer cash as needed from investments to support disbursements. Consequently, a zero cash balance is maintained.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Fund's exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2013 and 2012.

<u>Investment Type</u>	<u>2013</u>		<u>2012</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Treasury bonds and notes	\$ 2,511,596	\$ 2,379,006	\$ 2,705,260	\$ 2,439,606
U.S. Government mortgage backed securities	11,139,385	10,945,862	12,052,666	11,625,129
U.S. Agency debt obligations	29,935,198	29,383,818	28,595,903	26,755,717
Money market funds	<u>1,889,902</u>	<u>1,889,902</u>	<u>3,278,337</u>	<u>3,278,337</u>
TOTAL	<u>\$ 45,476,081</u>	<u>\$ 44,598,588</u>	<u>\$ 46,632,166</u>	<u>\$ 44,098,789</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated.

The following table is provided for use in assessing the Funds exposure to credit risk as of December 31, 2013 and 2012.

Standard and Poor's Rating	Estimated Fair Value 2013	Estimated Fair Value 2012
Money market funds	\$ 1,889,902	\$ 3,278,337
U.S. Government securities and U.S. Treasury securities –		
Not rated	14,050,766	14,757,925
Rated AA+	<u>29,535,413</u>	<u>28,595,904</u>
Total	<u>\$ 45,476,081</u>	<u>\$ 46,632,166</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2013.

INVESTMENT MATURITIES (in years)

<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
U S Treasury bonds and notes	\$ 2,511,596	\$ -	\$ 1,369,930	\$ 1,141,666	\$ -
U S Government mortgage backed	11,139,385	6,248	1,003,844	742,336	9,386,957
U S Agency debt obligations	29,935,198	5,233,304	14,602,526	10,099,368	-
Money market funds	<u>1,889,902</u>	<u>1,889,902</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$45,476,081</u>	<u>\$ 7,129,454</u>	<u>\$16,976,300</u>	<u>\$11,983,370</u>	<u>\$ 9,386,957</u>

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Investment income (loss) for the years ended December 31, 2013 and 2012 consists of the following.

	<u>2013</u>	<u>2012</u>
Interest income	\$ 1,253,215	\$ 1,330,646
Realized losses, net	(133,615)	(37,739)
Unrealized losses arising during the year	<u>(1,655,886)</u>	<u>(106,119)</u>
	<u>\$ (536,286)</u>	<u>\$ 1,186,788</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

During the years ended December 31, 2013 and 2012, LMRFA provided excess reinsurance to the Fund with the following limits

Item I	\$2,000,000 annual aggregate in excess of 80% of earned normal premium
Item II	\$2,000,000 each and every loss in excess of \$175,000 each and every loss in accident years prior to 2012 and \$250,000 for 2012 and future years.

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability, workers' compensation and accident and health claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claim obligations remains with the participants.

The following are condensed Statements of Net Position for LMRFA at December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets	\$ 44,815,513	\$ 44,537,935
Liabilities	<u>43,948,311</u>	<u>43,437,960</u>
Net position	<u>\$ 867,202</u>	<u>\$ 1,099,975</u>

At December 31, 2013, the Fund included \$28.3 million as recoverable from LMRFA which reduces the Fund's liabilities for anticipated losses. The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the Fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable.

6. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 18, 2014 and determined that there were no events that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTAL INFORMATION

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
CLAIMS EXPENSE AND RE-ESTIMATED CLAIM ADJUSTMENT EXPENSE**

DECEMBER 31, 2013
(Unaudited)

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense net of loss assumed by reinsurers) incurred by the Fund as of the end of 2013 and as of the end of each of the last nine years.

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	(in thousands)									
ENP and investment income	\$ 8,956	\$ 11,046	\$ 11,787	\$ 12,360	\$ 11,166	\$ 11,138	\$ 10,101	\$ 8,429	\$ 7,160	\$ 6,059
Operating costs, unallocated	7,317	5,887	5,721	4,951	3,431	3,395	2,951	2,473	1,987	1,963
Estimated incurred claims and expense end of policy year	6,343	6,103	4,786	6,286	4,429	4,824	4,712	3,577	3,898	4,032
Paid (cumulative) as of										
End of policy year	1,195	1,301	1,096	1,540	876	909	1,172	953	964	1,051
One year later	-	3,353	2,187	3,447	1,761	2,164	2,758	2,186	2,061	2,240
Two years later	-	-	2,671	4,165	2,258	2,757	3,481	2,992	2,696	2,685
Three years later	-	-	-	4,809	2,467	3,042	3,758	3,527	3,290	3,188
Four years later	-	-	-	-	2,554	3,270	3,933	3,727	3,749	3,731
Five years later	-	-	-	-	-	3,605	3,955	3,924	3,979	3,937
Six years later	-	-	-	-	-	-	4,699	3,968	4,048	3,844
Seven years later	-	-	-	-	-	-	-	4,294	4,091	4,014
Eight years later	-	-	-	-	-	-	-	-	4,394	4,089
Nine years later	-	-	-	-	-	-	-	-	-	4,931
Re-estimated incurred claims and claims expense:										
End of policy year	6,343	6,103	4,786	6,286	4,429	4,824	4,712	3,577	3,898	4,032
One year later	-	7,359	4,450	6,148	3,329	4,938	5,334	3,967	3,746	4,266
Two years later	-	-	4,106	6,286	3,722	4,005	5,915	4,305	3,934	3,994
Three years later	-	-	-	6,346	3,329	4,470	4,364	4,961	4,487	4,130
Four years later	-	-	-	-	3,147	4,043	4,926	4,449	4,827	5,058
Five years later	-	-	-	-	-	3,896	4,608	4,598	4,526	4,707
Six years later	-	-	-	-	-	-	4,527	4,512	4,631	4,508
Seven years later	-	-	-	-	-	-	-	4,503	4,458	4,468
Eight years later	-	-	-	-	-	-	-	-	4,363	4,463
Nine years later	-	-	-	-	-	-	-	-	-	4,457
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	1,256	(680)	60	(1,282)	(928)	(185)	926	465	425

See accompanying independent auditors' report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Officers and Trustees
Louisiana Municipal Risk Management Agency
Workers' Compensation Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund (the Fund), which comprise the statement of financial position as of and for the year ended December 31, 2013, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 18, 2014

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Finding

The Fund's response to the finding identified in our audit is described in the accompany schedule of findings. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 18, 2014

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2013

- None

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2013

FINDINGS—Financial Statement Audit

2012-1 Internal Control Over Financial Reporting

<u>Criteria</u>	The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Fund, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP)
<u>Condition</u>	The Fund retains an actuarial specialist to assist in the calculation of the unpaid claims liability for each financial reporting period. The development of estimates for unpaid claims reserves relies on accurate and consistent data for claims payment patterns, case reserve setting practices, claims reporting, and other statistical data provided by management. Changes in the underlying data sources and claims handling practices over time must be communicated and considered in the actuarial trending and analysis in estimating future claims settlement.
<u>Cause</u>	During 2012 management determined that certain information used to prepare the actuarial valuation of the unpaid claims reserves was used erroneously and resulted in inaccuracies in the computation of the unpaid claims reserve valuations for the year ended December 31, 2011 and some prior years. Certain components of the information communicated to the actuarial specialist were inconsistent with the Fund's actual underlying claims data and some information was misunderstood in communications with the specialist.
<u>Effect</u>	These conditions resulted in the estimates for unpaid claims reserve liabilities being based on inaccurate information and the misstatement of the year end actuarial valuation of the unpaid claims reserve liabilities. These errors required the restatement of the Fund's 2011 financial statements. These conditions were considered to be a significant deficiency in the Fund's internal control over financial reporting.
<u>Recommendation</u>	The Fund's management and actuarial specialist have implemented additional procedures to ensure the accuracy and consistent understanding of the Fund's claims information being exchanged and improvements in the communication between these parties. We recommend that the Fund continue to monitor these additional procedures and make additional improvements as necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability.

View of Responsible Official and Planned Corrective Action

Management agrees with the finding and management has implemented procedures necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability. During 2012, management began providing automated data to the actuary and implemented a mid-year review by the actuary. Management will continue to implement these added procedures in future periods.

Current Status Resolved

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2013



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LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2013

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund
Baton Rouge, Louisiana

We have audited the accompanying statements of net position of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 16, 2014, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Podlethwaite & Nefferville

Baton Rouge, Louisiana
June 16, 2014

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Association - Unemployment Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2013 and 2012. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2013 by \$3,794,237 compared to \$3,925,463 at December 31, 2012, which is a 3.3% decrease from the previous year.
- At December 31, 2013 and 2012, the Fund's assets totaled \$4,363,548 and \$4,384,680, respectively, which consisted primarily of cash, receivables and investments.
- The Fund reported premiums earned of \$348,834 and \$336,511 during the years ended December 31, 2013 and 2012, respectively, and a decrease in net position of \$131,226 and \$17,560, respectively.
- Investment loss was \$54,677 during 2013 compared to a gain of \$111,450 during 2012. The decrease was attributed primarily to changes in market values of investments resulting from rising interest rates of bonds.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Position includes all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). These statements provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premium and investment income, profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Position as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in them. The net position (difference between assets, deferred outflows, deferred inflows and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, judicial environment, and new or changed government legislation.

Condensed Statements of Net Position

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Total assets	\$ 4,363,548	\$ 4,384,680
Deferred outflows	-	-
Total liabilities	569,311	459,217
Deferred inflows	-	-
Net position	<u>\$ 3,794,237</u>	<u>\$ 3,925,463</u>

The Fund's total assets consist almost entirely of investments in U.S. Treasury and Agency securities and cash equivalents. The Fund's liabilities consist of estimated benefits and related administration costs payable at year end.

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

**Condensed Statements of Revenues and Expenses and Changes in Net Position
for the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 348,834	\$ 336,511
Operating expenses	<u>425,383</u>	<u>465,521</u>
Operating loss	(76,549)	(129,010)
Non-operating income/(loss)	<u>(54,677)</u>	<u>111,450</u>
Change in net position	<u>\$ (131,226)</u>	<u>\$ (17,560)</u>

Operating revenues increased by approximately 3.7% from the year ended December 31, 2012 to 2013. Claims expense decreased approximately 11.4% during the year ended December 31, 2013 as a result of a decrease in unemployment claims made or estimated. During 2013, the overall rate of unemployment throughout Louisiana, and among covered municipalities, decreased as a result of improvements in economic activities. Additionally, during 2013, investment income decreased as compared to 2012. Market interest rates increased during 2013, which had negative consequences on the market value of the Fund's fixed income portfolio. Because of the decrease in revenues and decrease in investment income, the Fund's net position for 2013 decreased \$131,226.

Management anticipates unemployment trends in the State of Louisiana will continue to remain comparable in 2014. At this time, management does not anticipate an increase in premiums, due to the overall health of the Fund, but will continue to monitor the future obligations. These trends indicate the Fund will likely incur similar benefit obligations and a small operating gain similar to the year ended December 31, 2013.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Association – Unemployment Compensation Fund, P O Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents (note 2)	\$ 140,627	\$ 14,494
Investments (note 2)	4,094,486	4,243,861
Accounts receivable	84,719	81,010
Prepaid expenses	13,415	13,910
Accrued interest receivable	<u>30,301</u>	<u>31,405</u>
 Total Assets	 <u>\$ 4,363,548</u>	 <u>\$ 4,384,680</u>
 Deferred outflows	 -	 -
Liabilities		
Unpaid claims liability (note 3)	\$ 350,000	\$ 350,000
Accrued expenses	90,220	107,431
Due to/from other funds	<u>129,091</u>	<u>1,786</u>
 Total Liabilities	 569,311	 459,217
 Deferred inflows	 -	 -
 Net position	 <u>3,794,237</u>	 <u>3,925,463</u>
 Total liabilities, deferred inflows, and net position	 <u>\$ 4,363,548</u>	 <u>\$ 4,384,680</u>

The accompanying notes are an integral part of these financial statements

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 348,834	\$ 336,511
Total operating revenues	<u>348,834</u>	<u>336,511</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	351,274	396,432
Service agent fees	58,533	54,185
Miscellaneous	<u>15,576</u>	<u>14,904</u>
Total operating expenses	<u>425,383</u>	<u>465,521</u>
<u>OPERATING LOSS</u>	(76,549)	(129,010)
<u>NON-OPERATING INCOME</u>		
Investment (loss) income - net	<u>(54,677)</u>	<u>111,450</u>
<u>CHANGE IN NET POSITION</u>	(131,226)	(17,560)
NET POSITION - BEGINNING OF YEAR	<u>3,925,463</u>	<u>3,943,023</u>
NET POSITION - END OF YEAR	<u><u>\$ 3,794,237</u></u>	<u><u>\$ 3,925,463</u></u>

The accompanying notes are an integral part of these financial statements

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Operating loss	\$ (76,549)	\$ (129,010)
Adjustments to reconcile operating loss to net cash used by operating activities		
Changes in operating assets and liabilities		
Accounts receivable	(3,709)	1,167
Prepays	495	(25)
Accrued expenses, unpaid claims and other liabilities	110,094	(19,024)
Net cash provided by (used in) operating activities	<u>30,331</u>	<u>(146,892)</u>
Cash flows from investing activities		
Purchases of investments	(1,507,265)	(1,776,345)
Proceeds from sale or maturity of investments	1,461,516	1,768,861
Interest income received	<u>141,551</u>	<u>153,268</u>
Net cash provided by investing activities	<u>95,802</u>	<u>145,784</u>
Net change in cash	126,133	(1,108)
Cash, beginning of year	<u>14,494</u>	<u>15,602</u>
Cash, end of year	<u><u>\$ 140,627</u></u>	<u><u>\$ 14,494</u></u>

The accompanying notes are an integral part of these financial statements

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) was formed under Louisiana Revised Statutes 23 1552. The Fund consists of Louisiana municipalities who have joined together through self-insurance agreements to provide unemployment compensation fund insurance to member municipalities. Administration of the Fund is vested in the Executive Board of the Louisiana Municipal Association (LMA). If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

LMA is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

As of December 31, 2013, there were approximately 6,828 participants and 144 participating municipalities. As of December 31, 2012, there were approximately 6,378 participants and 144 participating municipalities.

The Fund and LMA are affiliated through common membership and management control. Although both of these entities are related parties, their net position is available only to the respective entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

(b) Basis of Accounting

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Statement 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net position are not presented in a classified format.

(c) Net Position

During the year ended December 31, 2012, the Fund implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Cash and Cash Equivalents*

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more or are reinvested continuously, they are classified as investments.

(e) *Investments*

Investments are reported at estimated fair value. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in net investment income. Investments include money market accounts, repurchase agreements, U.S. Government Agency obligations and U.S. Treasury securities.

(f) *Unpaid Claims Liability*

Claims expense consists of estimated amounts for claims incurred during the current year and adjustments to the estimates of prior years' claims liability. These changes are reflected in operations in the period they become known. The Fund establishes claim liabilities based on estimates of the ultimate cost of claims that have been reported, but not yet settled.

(g) *Income Taxes*

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(h) *Premium Income and Accounts Receivable*

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to premiums are considered to be a change in estimate and are recognized in the period they become known.

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(i) *Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Reclassifications*

Certain items in the 2012 financial statements have been reclassified to be comparative to the 2013 presentation

2 DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 2013 and 2012.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U S Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements.

GASB Statement No. 40, *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31.

<u>Investment Type</u>	<u>2013</u>		<u>2012</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U S Treasury bonds and notes	\$ 207,350	\$ 202,452	\$ 217,565	\$ 204,841
U S Government mortgage-backed securities	914,826	898,365	1,004,139	965,058
U S Agency debt obligations	2,902,187	2,850,384	2,896,928	2,716,536
Money market funds	<u>70,123</u>	<u>70,123</u>	<u>125,229</u>	<u>125,229</u>
TOTAL	<u>\$ 4,094,486</u>	<u>\$4,021,324</u>	<u>\$ 4,243,861</u>	<u>\$4,011,664</u>

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2 DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a good tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk at December 31.

Standard and Poor's Rating	Estimated Fair Value 2013	Estimated Fair Value 2012
Money market funds	\$ 70,123	\$ 125,229
U.S. Government Securities		
U.S. Treasury securities – Not rated	1,122,176	1,024,151
Rated AA+	<u>2,902,187</u>	<u>3,094,481</u>
	<u>\$ 4,094,486</u>	<u>\$ 4,243,861</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2 DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2013.

<u>Investment Type</u>	<u>Estimated Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>5 - 10 Years</u>	<u>Over 10 Years</u>
Money market funds	\$ 70,123	\$ 70,123	\$ -	\$ -	\$ -
U S Treasury bonds and notes	207,350	30,552	55,043	121,755	-
U S Government mortgage-backed securities	914,826	499	52,808	62,929	798,590
U S agency debt obligations	<u>2,902,187</u>	<u>452,272</u>	<u>1,383,528</u>	<u>1,066,387</u>	<u>-</u>
	<u>\$ 4,094,486</u>	<u>\$ 553,446</u>	<u>\$ 1,491,379</u>	<u>\$ 1,251,071</u>	<u>\$ 798,590</u>

Investment income for the years ended December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Interest income	\$ 115,735	\$ 125,833
Net realized gain (loss)	(11,377)	6,500
Unrealized net loss arising during the year	<u>(159,035)</u>	<u>(20,883)</u>
	<u>\$ (54,677)</u>	<u>\$ 111,450</u>

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

3 CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liability for the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	\$ <u>350</u>	\$ <u>350</u>
Incurred claims and claims adjustment expenses		
Provision for insured events of the current year	<u>351</u>	<u>396</u>
Payments		
Claims and claims adjustment expenses attributable to insured events of current year	245	274
Claims and claim adjustment expenses attributable to insured events of prior years	<u>106</u>	<u>122</u>
Total payments	<u>351</u>	<u>396</u>
Total unpaid claims and claims adjustment expenses liability at end of year	\$ <u>350</u>	\$ <u>350</u>

4 DUE TO/FROM OTHER FUNDS

Individual balances due to/from other funds were \$129,091 as of December 31, 2013 compared to \$1,786 as of December 31, 2012. Amounts were repaid in the first quarters of 2014 and 2013, respectively.

5 SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 16, 2014 and determined that there were no events that require disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Officers and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Association – Unemployment Compensation Fund (the Fund), which comprise the statement of net position as of and for the year ended December 31, 2013, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2014

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Podlasko & Neffville

Baton Rouge, Louisiana
June 16, 2014

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2013

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

FINANCIAL STATEMENTS

DECEMBER 31, 2013

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Reserve Fund Agency
Baton Rouge, Louisiana

We have audited the accompanying statements of net position of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 18, 2014, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Postlethwaite & Nefferville

Baton Rouge, Louisiana
June 18, 2014

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Reserve Fund Agency's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2013 and 2012. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The Fund discontinued providing reinsurance to the LMRMA Accident and Health Fund effective January 1, 2013 (see note 2).
- The assets of the Fund exceeded its liabilities at December 31, 2013 by \$867,202 compared to exceeding its assets by its liabilities by \$1,099,975 as of December 31, 2012, which is a 21% decrease from the previous year.
- At December 31, 2013, the Fund's assets totaled \$44,815,513, which consisted primarily of investment securities primarily composed of cash, direct and indirect investments in U.S. Government debt obligations, and receivables. At December 31, 2012, the Fund's assets totaled \$44,537,935 and were comprised of similar types of assets.
- The Fund reported gross earned premiums of \$10,317,359 and \$5,801,347 during the years ended December 31, 2013 and 2012, respectively. This increase during 2013 is a result of increases in premium rates charged in the base funds as described in note 2.
- The Fund reported investment loss of \$407,368 and investment income of \$1,147,312 during the years ended December 31, 2013 and 2012, respectively. The decrease in investment income is attributed to less favorable changes in market values of the Fund's investment portfolios as compared to the prior years.
- The Fund had a decrease in net position of \$232,773 during the year ended December 31, 2013 and a decrease in net position of \$2,450,349 during the year ended December 31, 2012. The decrease in net position is a result of both unfavorable development of claims as well as lower investment yields.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by the private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premium and investment income, profitability and creditworthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Position as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in them. The net position (difference between assets, deferred outflows, deferred inflows and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Position at December 31:

	<u>2013</u>	<u>2012</u>
Total assets	\$ 44,815,513	\$ 44,537,935
Deferred outflows	-	-
Total liabilities	43,948,311	43,437,960
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 867,202</u>	<u>\$ 1,099,975</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 0.6% while liabilities increased 1.2% due to increase in claims liabilities resulting from both unfavorable development of claims associated with prior years as well as higher claims estimates incurred in 2013. Additionally, there was an increase in total assets as a result of an increase in cash and cash equivalents and due from affiliates which offset the effect of rising market interest rates during 2013 which had a negative impact on the fair value of the Fund's investment portfolio. Net position decreased approximately 21% from the prior year resulting from incurred claims (see note 6).

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

**Condensed Statements of Revenues and Expenses and Changes in Net Position
for the Years Ended December 31:**

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 10,317,359	\$ 5,801,347
Operating expenses	<u>10,142,764</u>	<u>9,399,008</u>
Operating income (loss)	174,595	(3,597,661)
Non-operating income (loss)	<u>(407,368)</u>	<u>1,147,312</u>
Change in net position	<u>\$ (232,773)</u>	<u>\$ (2,450,349)</u>

During the year ended December 31, 2013, the Fund reported premium earned of \$10,317,359 and investment loss of \$407,368. Premiums earned increased due to increases in rates charged in the corresponding base funds in order to properly reflect the experience of the base funds. Investment income decreased due to less favorable market performance in the Fund's investments as previously discussed. The Fund reported total expenses of \$10,142,764, which consisted primarily of claims expense. Total expenses increased approximately \$744,000 due primarily to unfavorable development in the three base insurance funds than the prior year. The Fund experienced an operating income of approximately \$175,000 and a decrease in net position of approximately \$233,000 for the current year. See the Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report.

Future Changes to the Fund

See note 6 for additional description of the risks and uncertainties regarding the Fund's financial condition. During 2014, management intends to continue to improve the financial viability of the Fund by increasing the aggregate limits of losses returned by the base funds.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Reserve Fund Agency, P O Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents (note 4)	\$ 3,392,591	\$ 862,039
Investments (note 4)	36,466,115	40,833,206
Accrued interest receivable	264,566	306,492
Other receivables	-	5,296
Due from affiliates (note 2)	4,692,241	2,528,293
Reinsurance receivable	<u>-</u>	<u>2,609</u>
 Total assets	 44,815,513	 44,537,935
 Deferred outflows	 -	 -
 Total assets and deferred outflows	 <u>\$ 44,815,513</u>	 <u>\$ 44,537,935</u>
 Liabilities		
Unpaid claims liability (note 3)	43,925,000	43,151,000
Claims payable (note 2)	\$ -	\$ 276,813
Accrued expenses	<u>23,311</u>	<u>10,147</u>
 Total liabilities	 43,948,311	 43,437,960
 Deferred inflows	 -	 -
 Net position	 <u>867,202</u>	 <u>1,099,975</u>
 Total liabilities, deferred inflows, and net position	 <u>\$ 44,815,513</u>	 <u>\$ 44,537,935</u>

The accompanying notes are an integral part of these financial statements

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Premiums earned (note 2)	\$ 10,317,359	\$ 5,801,347
Total operating revenues	<u>10,317,359</u>	<u>5,801,347</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	10,055,988	9,237,200
Reinsurance premium	-	94,621
Professional fees and other	<u>86,776</u>	<u>67,187</u>
Total operating expenses	<u>10,142,764</u>	<u>9,399,008</u>
<u>OPERATING INCOME (LOSS)</u>	174,595	(3,597,661)
<u>NON-OPERATING INCOME (LOSS)</u>		
Investment income (loss), net (note 4)	<u>(407,368)</u>	<u>1,147,312</u>
<u>CHANGE IN NET POSITION</u>	(232,773)	(2,450,349)
<u>NET POSITION - BEGINNING OF YEAR</u>	<u>1,099,975</u>	<u>3,550,324</u>
<u>NET POSITION - END OF YEAR</u>	<u>\$ 867,202</u>	<u>\$ 1,099,975</u>

The accompanying notes are an integral part of these financial statements

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Operating income (loss)	\$ 174,595	\$ (3,597,661)
Adjustments to reconcile operating income (loss) to net cash used in operations		
Change in due from affiliates, reinsurance receivable, other receivables	(2,114,117)	(1,429,412)
Change in unpaid claims liability	497,187	3,428,646
Change in accrued expenses	<u>13,164</u>	<u>(315,868)</u>
Net cash used in operating activities	<u>(1,429,171)</u>	<u>(1,914,295)</u>
Cash flows from investing activities		
Purchases of investments	(14,116,438)	(14,827,665)
Proceeds from sales or maturities of investments	16,674,550	15,105,401
Investment income received	<u>1,401,611</u>	<u>1,541,535</u>
Net cash provided by investing activities	<u>3,959,723</u>	<u>1,819,271</u>
Net change in cash	2,530,552	(95,024)
Cash, beginning of year	<u>862,039</u>	<u>957,063</u>
Cash, end of year	<u><u>\$ 3,392,591</u></u>	<u><u>\$ 862,039</u></u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

Louisiana Municipal Reserve Fund Agency (LMRFA or the Fund) was formed under Louisiana Revised Statutes 33 1349(e) LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance Administration of the Fund is vested in the Executive Board of LMA LMRFA reinsures the Louisiana Municipal Risk Management Agency (LMRMA) Public Liability Fund, Workers' Compensation Fund and Accident and Health Fund

LMRMA was formed under Louisiana Act No 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations In accordance with Revised Statutes 33 1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate The program's general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association, a member may withdraw from the Fund by giving proper notice Fund underwriting and rate setting policies have been established by the Board of LMRMA after actuarial consultation If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a non-profit corporation under the laws of the State of Louisiana LMA acts as the administrator for LMRFA

Risk Management, Inc (RMI) is a third party service agent primarily for LMRMA insurance funds and LMRFA RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA

The various LMRMA Funds, LMA, RMI, and LMRFA are all affiliated through common membership and management control Although all of these entities are related parties, their various net positions are available only to each individual entity for its operations For this reason each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No 10 and GASB Statement No 14

(b) Basis of Accounting

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net position are not presented in a classified format.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Net Position*

During the year ended December 31, 2012, the Fund implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

(d) *Investments*

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at estimated fair value are included in investment income. Investments include money market accounts, repurchase agreements, and U.S. Government Agency, treasury obligations and corporate obligations.

(e) *Premium Income*

Most of the premium income of LMRFA collected in the current year is based on a percentage of LMRMA workers' compensation, public liability, and accident and health funds' premiums (see note 2). Pursuant to the reinsurance agreements, the LMRMA Funds are responsible for all of LMRFA's claims servicing and administrative costs. Acquisition costs associated with new and renewal contracts are expensed when incurred.

(f) *Operating/Non-Operating Revenue and Expense*

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Unpaid Claims Liability

The policy liabilities reinsured by the Fund are for claims incurred during the benefit period, regardless of when the claims are reported. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as public liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors.

A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expenses are presented at present value in the financial statements.

(h) Statements of Cash Flows

For the purpose of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments (see note 4).

(i) Income Taxes

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(j) Use of Estimates

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

2 RELATED PARTY TRANSACTIONS

LMA, RMI, LMRMA, and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees are based on earned normal premiums (ENP). The respective percentages of the respective earned normal premiums and earned standard premiums are as follows:

	2013		2012	
	Fee Basis	Amount	Fee Basis	Amount
Premium income				
LMRMA				
Public Liability	44.00% ENP**	\$ 4,655,476	21.75% ENP	\$ 2,046,139
Workers' Compensation	53.00% ENP**	5,585,877	30.00% ENP	2,775,589
Accident and Health	current year residual*	76,006	\$40.58 per participant	979,619
		<u>\$ 10,317,359</u>		<u>\$ 5,801,347</u>
Due (to) from affiliates				
LMRMA				
Public Liability		\$ 960,476		\$ 390,903
Workers' Compensation		<u>3,731,765</u>		<u>2,137,390</u>
		<u>\$ 4,692,241</u>		<u>\$ 2,528,293</u>

* Effective January 1, 2013, the LMRMA Accident and Health Fund converted from a self-funded program plan to an LMA sponsored program fully insured through Blue Cross and Blue Shield of Louisiana. These changes also discontinue the Fund insuring losses for the LMRMA Accident and Health program.

** For the year ended December 31, 2013, the board of directors approved a one time transfer of \$625,000 and \$875,000 in administrative fees from each of Public Liability and Workers' Compensation, respectively, to the LMRFA.

Claims payable represents amounts payable to the LMRMA Accident and Health Fund for claims unpaid at December 31, 2013 and 2012 of \$0 and \$276,813, respectively, which were in excess of the LMRMA Accident and Health Fund's retention level.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 43,151	\$ 39,849
Less Reinsurance recoverables	-	-
Liability for unpaid losses at beginning of year, net	<u>43,151</u>	<u>39,849</u>
Net incurred related to		
Current year	5,099	7,533
Prior years	<u>4,957</u>	<u>1,704</u>
Total incurred	<u>10,056</u>	<u>9,237</u>
Net paid related to		
Current year	1	1,087
Prior years	<u>9,281</u>	<u>4,848</u>
Total paid	<u>9,282</u>	<u>5,935</u>
Liability for unpaid losses at end of year, gross	43,925	43,151
Less Reinsurance recoverables	-	-
Liability for unpaid losses at end of year, net	<u>\$ 43,925</u>	<u>\$ 43,151</u>

The above year end reserve liabilities were comprised of the following coverage types

	<u>2013</u>	<u>2012</u>
Workers' compensation	\$ 28,362	\$ 25,304
Public liability	<u>15,563</u>	<u>17,847</u>
	<u>\$ 43,925</u>	<u>\$ 43,151</u>

During 2013 and 2012, the Fund experienced overall unfavorable development on unpaid claims liabilities established in prior years due largely to the impact of certain adverse development as it relates to workers' compensation and public liability coverage. These significant unfavorable developments are due to certain adverse judicial proceedings as well as large losses that were reported during 2013 and 2012 but related to events occurring in prior years. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2013 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2013 will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted as of December 31, 2013 and 2012 based on the Fund's anticipated payout patterns and a discount rate assumption of 4.5% which management expects to approximate the interest earnings over the payout period. Management believes these assumptions reflect the payout patterns and investment earning rates that should be used for discounting reserves. The effect of the reserve discounts was \$15,641,000 and \$13,098,000 at December 31, 2013 and 2012, respectively.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

4 DEPOSITS AND INVESTMENTS

LMRFA must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by this Fund shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2013 and 2012.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U S Government and its agencies, as well as financial institutions. Included in investments are certificates of deposit, money market accounts and repurchase agreements.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No 40), *Deposits and Investment Risk Disclosures*, established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Fund's exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2013 and 2012.

<u>Investment Type</u>	<u>2013</u>		<u>2012</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U S Government mortgage backed securities	\$ 10,577,391	\$ 10,325,704	\$ 12,085,360	\$ 11,591,965
U S Government agency debt obligations	23,723,758	22,799,174	26,021,748	23,859,204
U S Treasury bonds and notes	1,707,531	1,614,502	1,955,874	1,703,693
Money market funds	<u>457,435</u>	<u>457,435</u>	<u>770,224</u>	<u>770,224</u>
TOTAL	<u>\$ 36,466,115</u>	<u>\$ 35,196,815</u>	<u>\$ 40,833,206</u>	<u>\$ 37,925,086</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

4 DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk (continued)

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2013 and 2012.

Standard and Poor's Rating	Estimated Fair Value 2013	Estimated Fair Value 2012
Money market funds	\$ 457,435	\$ 770,224
U.S. Government securities and U.S. Treasury securities		
Not rated	12,784,652	14,041,234
Rated AA+	<u>23,224,028</u>	<u>26,021,748</u>
Total	<u>\$ 36,466,115</u>	<u>\$ 40,833,206</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. This risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2013.

<u>INVESTMENT MATURITIES (in years)</u>					
<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
U S Government mortgage backed securities	\$ 10,577,391	\$ 1,928	\$ 707,004	\$ 1,469,876	\$ 8,398,583
U S Government agency debt obligations	23,723,758	2,119,764	14,683,727	6,920,267	-
U S Treasury bonds and notes	1,707,531	45,828	126,795	1,398,830	136,078
Money market funds	<u>457,435</u>	<u>457,435</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 36,466,115</u>	<u>\$ 2,624,955</u>	<u>\$ 15,517,526</u>	<u>\$ 9,788,973</u>	<u>\$ 8,534,661</u>

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Net investment income for the years ended December 31, 2013 and 2012 consists of the following.

	<u>2013</u>	<u>2012</u>
Interest income	\$ 1,238,493	\$ 1,427,218
Net realized losses – net	(7,041)	(78,309)
Unrealized losses arising during the year	<u>(1,638,820)</u>	<u>(201,597)</u>
	<u>\$ (407,368)</u>	<u>\$ 1,147,312</u>

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

5 REINSURANCE POLICY COVERAGE

LMRMA and LMRFA represent a cooperative program for group funding and risk management of public liability, workers' compensation, and accident and health risks of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants.

Ceded

LMRFA obtained commercial reinsurance to cover a portion of the accident and health risks assumed during 2012. No reinsurance was obtained in 2013 due to the change in the Accident and Health Fund as discussed in note 2. LMRFA obtained commercial reinsurance to cover a portion of the workers' compensation medical losses for the periods January 1, 1995 through December 31, 2001. For all subsequent years, the LMRFA did not reinsure workers' compensation medical losses or other insured coverages.

Assumed

For the years ended December 31, 2013 and 2012, LMRFA provided excess reinsurance to LMRMA, Workers' Compensation, Public Liability and Accident and Health Funds with the following limits:

Workers' Compensation Fund

- Item I \$2,000,000 annual aggregate in excess of 80% of earned normal premium
- Item II \$2,000,000 each and every loss in excess of \$175,000 each and every loss in accident years prior to 2012 and \$250,000 for 2012 and 2013

Public Liability Fund

- Item I \$5,000,000 annual aggregate in excess of 65% of earned normal premium
- Item II Each and every loss in excess of \$100,000 each and every loss in accident years prior to 2012 and \$150,000 for 2012 and 2013

Accident and Health Fund (2012 and prior)

- Item I Annual aggregate in excess of 125% of annual earned normal premium for the year ended December 31, 2012
- Item II \$900,000 specific losses in excess of \$100,000 each and every loss for the year ended December 31, 2012

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

6. RISKS AND UNCERTAINTIES

As shown in the accompanying financial statements, at December 31, 2013, the Fund reported a net position of \$867,202 and total liabilities of \$43,948,311 which are comprised primarily of loss reserve liabilities. The Fund has experienced substantial operating losses in recent years related to large losses incurred arising in those years as well as continued adverse development of insured losses for the LMRMA Workers' Compensation Fund and LMRMA Public Liability Fund (base funds).

The Fund has implemented substantial premium rate increases charged to the base funds. LMRFA also received \$1.5M of additional transfers during 2013 from the base funds as further described in note 2. Additionally, as indicated in note 5, the Fund has increased the insured limits assumed from the base funds in 2012 and 2013 and intends for this rate to increase going forward thereby reducing the insurance coverage assumed by the Fund.

Management expects these changes along with other intended changes in the future will be sufficient for the Fund to achieve a sustainable level of cash flows and profitability. However, no assurances can be provided that these business plans are attainable, or if attained the Fund can achieve a level of profitability and cash flow sufficient to remain a financially viable entity. The Fund's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Fund as a going concern. If the Fund is unable to meet its obligations as they become due and a managed shut down is not successful, the base funds and participating members would become responsible for their respective outstanding claims obligations of LMRFA.

7. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 18, 2014 and determined that there were no events that required disclosure. No events occurring after this date have been considered for inclusion in these financial statements.

SUPPLEMENTAL INFORMATION

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
CLAIMS EXPENSE AND RE-ESTIMATED CLAIM ADJUSTMENT EXPENSE**

DECEMBER 31, 2013

(Unaudited)

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense incurred by the Fund as of the end of 2013 and as of the end of each of the last nine years.

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	(in thousands)									
ENP and investment income	\$ 9,910	\$ 6,948	\$ 7,590	\$ 6,672	\$ 5,220	\$ 6,999	\$ 6,090	\$ 4,516	\$ 3,658	\$ 4,052
Operating costs, unallocated	87	162	127	127	122	127	124	120	124	118
Estimated incurred claims and expense, end of policy year	7,037	9,594	9,529	9,211	7,560	9,125	5,650	4,615	4,009	5,743
Paid (cumulative) as of:										
End of policy year	1	1,087	797	787	942	1,232	562	712	371	209
One year later	-	1,160	1,733	787	942	1,232	1,072	1,115	371	209
Two years later	-	-	3,106	2,661	1,987	1,370	2,036	1,310	2,378	337
Three years later	-	-	-	5,062	2,040	2,600	3,268	2,234	2,950	1,150
Four years later	-	-	-	-	3,314	4,095	3,304	3,304	3,063	2,355
Five years later	-	-	-	-	-	4,841	4,092	4,105	3,636	2,671
Six years later	-	-	-	-	-	-	4,628	3,605	4,046	3,062
Seven years later	-	-	-	-	-	-	-	4,346	3,880	3,164
Eight years later	-	-	-	-	-	-	-	-	4,830	3,393
Nine years later	-	-	-	-	-	-	-	-	-	3,686
Re-estimated incurred claims and claims expense:										
End of policy year	7,037	9,594	9,529	9,211	7,560	9,125	5,650	4,615	4,009	5,743
One year later	-	11,680	10,038	7,544	6,279	10,254	8,712	4,491	4,564	4,308
Two years later	-	-	9,087	9,554	6,372	8,302	10,074	5,895	5,515	3,824
Three years later	-	-	-	10,517	5,807	7,514	6,989	6,989	6,211	4,059
Four years later	-	-	-	-	5,940	8,428	9,761	7,387	6,437	6,934
Five years later	-	-	-	-	-	8,208	8,639	7,440	6,558	6,576
Six years later	-	-	-	-	-	-	8,768	6,870	6,788	6,576
Seven years later	-	-	-	-	-	-	-	7,434	5,857	6,173
Eight years later	-	-	-	-	-	-	-	-	6,415	6,145
Nine years later	-	-	-	-	-	-	-	-	-	6,680
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	2,086	442	(1,306)	1,620	917	(3,118)	(2,819)	(2,406)	(937)

See accompanying independent auditors' report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Officers and Trustees
Louisiana Municipal Reserve Fund Agency
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund), which comprise the statement of net position as of and for the year ended December 31, 2013, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 18, 2014

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Finding

The Fund's response to the finding identified in our audit is described in the accompany schedule of findings. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 18, 2014

LOUISIANA MUNICIPAL RESERVE FUND AGENCY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2013

- None

LOUISIANA MUNICIPAL RESERVE FUND AGENCY
SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED DECEMBER 31, 2012

FINDINGS—Financial Statement Audit

2012-1 Internal Control Over Financial Reporting

<u>Criteria:</u>	The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Fund, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP).
<u>Condition:</u>	The Fund retains an actuarial specialist to assist in the calculation of the unpaid claims liability for each financial reporting period. The development of estimates for unpaid claims reserves relies on accurate and consistent data for claims payment patterns, case reserve setting practices, claims reporting, and other statistical data provided by management. Changes in the underlying data sources and claims handling practices over time must be communicated and considered in the actuarial trending and analysis in estimating future claims settlement.
<u>Cause:</u>	During 2012 management determined that certain information used to prepare the actuarial valuation of the unpaid claims reserves was used erroneously and resulted in inaccuracies in the computation of the unpaid claims reserve valuations for the year ended December 31, 2011 and some prior years. Certain components of the information communicated to the actuarial specialist were inconsistent with the Fund's actual underlying claims data and some information was misunderstood in communications with the specialist.
<u>Effect:</u>	These conditions resulted in the estimates for unpaid claims reserve liabilities being based on inaccurate information and the misstatement of the year end actuarial valuation of the unpaid claims reserve liabilities. These errors required the restatement of the Fund's 2011 financial statements. These conditions were considered to be a significant deficiency in the Fund's internal control over financial reporting.
<u>Recommendation:</u>	The Fund's management and actuarial specialist have implemented additional procedures to ensure the accuracy and consistent understanding of the Fund's claims information being exchanged and improvements in the communication between these parties. We recommend that the Fund continue to monitor these additional procedures and make additional improvements as necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability.

View of Responsible Official and Planned Corrective Action

Management agrees with the finding and management has implemented procedures necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability. During 2012, management began providing automated data to the actuary and implemented a mid-year review by the actuary. Management will continue to implement these added procedures in future periods.

Current Status: Resolved